GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:945
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Variation of Interest Rates
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Will the Minister of FINANCE be pleased to state:

(a) whether the rates of interest on the deposits and loan amounts of banks vary in the nationalised banks in the country;
(b) if so, the details thereof along with the formula fixed to determine these rates of interest; and
(c) the steps taken by the Government to rectify the discrepancy of the interest of banks?

Answer

The Minister of State in the Ministry of Finance

(a) to (c) The interest rates on various types of deposits and loans provided by banks may vary from bank to bank, but for a particular bank, they are uniform across the country.

Interest rates on term deposits of banks were deregulated by Reserve Bank of India (RBI) with effect from October 22, 1997 and on savings deposits with effect from October 25, 2011. In a deregulated environment, banks are free to determine their interest rates on deposits based on their commercial judgment.

With the introduction of Base Rate system since July 1, 2010, all rupee lending rates (including advances up to Rs.2 lakh) have been deregulated and these interest rates are determined by banks themselves as approved by their respective Boards.

RBI has introduced the marginal cost of funds based lending rate (MCLR) with effect from April 1, 2016. The formula for working out overnight MCLR is - (a) Marginal Cost of Funds [= 92% of Marginal Cost of Borrowings (deposits + borrowings) + 8% of Return on Net Worth] + (b) Negative Carry on CRR + (c) Operating Cost.

The MCLR system is expected to improve transparency in the methodology followed by banks for determining interest rates on advances.

Median Term Deposit Rates of Public Sector Banks (PSBs) as on 15th January, 2015 and 15th April, 2016 is given at Annexure-I.

Base Rates of PSBs as on 15th January, 2015 and 15th April, 2016 is given at Annexure-II.

Marginal Cost of Funds Based Lending Rate (MCLR) of PSBs as on 1st April, 2016 and 15th April, 2016 is given at Annexure-III